



# U.S.-Korea Trade Agreement

## What's At Stake for Dairy Products?

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The U.S.-Korea Trade Agreement (KORUS agreement) will provide America's farmers, ranchers, food processors, and the businesses they support with improved access to the Republic of Korea's \$1 trillion economy and 49 million consumers. Under the agreement, nearly two-thirds of current U.S. agricultural exports will become duty free immediately and lower tariffs will benefit both U.S. suppliers and Korean consumers.

The KORUS agreement will help the United States compete against Korea's other major agriculture suppliers and keep the United States on a level playing field with Korea's current and future free trade partners. Korea finalized its trade agreement with the European Union (EU) in October 2009 and presently has trade agreements in place with Chile, India, and the 10-country ASEAN group. In addition, the country is negotiating new trade agreements with Canada, Australia, New Zealand, and China. Most of these countries are U.S. competitors.

If the United States fails to implement the KORUS agreement, it will likely see its share of Korea's total agricultural imports, which stood at nearly 30 percent in 2009, steadily erode.

This trade agreement will provide immediate duty-free access for double the current export volume of total dairy products. Duty-free tariff-rate quotas (TRQ) will be established for cheese, skim and whole milk powder, food whey, and butter. Current annual feed whey imports from the United States worth \$8 million will gain duty-free access to the Korean market immediately upon implementation.

### **Skim and Whole Milk Powder, Condensed and Evaporated Milk**

#### *With the Agreement...*

U.S. exporters will benefit immediately from an initial duty-free TRQ of 5,000 metric tons on Korean imports of U.S. milk powder and condensed and evaporated milk. With this new duty-free access, the industry will not be subject to Korea's current small global WTO TRQs for the same products with 20- and 40-percent tariffs and its over-quota tariffs of 176 and 89 percent. From year two, the KORUS TRQ will grow at a compound 3-percent annual rate in perpetuity.

#### *The Trade Situation...*

From 2007 through 2009, U.S. suppliers shipped a combined annual average of 726 tons of milk powder and condensed and evaporated milk, valued at \$1.9 million. The U.S. share of Korea's import market in 2009 was 3.4 percent. The KORUS agreement will help these U.S. milk products to compete with similar products from Australia, New Zealand, and the EU.

#### *The Current Market Access Situation...*

U.S. milk powder and condensed and evaporated milk products face Korean global WTO TRQs ranging from 130 tons for evaporated milk to 1,034 tons for skim milk powder. In-quota tariff rates range from 20 to 40 percent, while out-of-quota or WTO-bound rates range from 89 to 176 percent.

### **Cheese**

#### *With the Agreement...*

U.S. cheese exports will benefit from a new duty-free TRQ of 7,000 tons. This compares to Korea's present cheese import tariff of 36 percent. From year two through year 14, this TRQ will grow at a compound 3-percent annual rate. Beginning in the 10<sup>th</sup> year, an unlimited quantity of cheddar cheese will be able to enter Korea duty free. Beginning in the 15<sup>th</sup> year, an unlimited quantity of all U.S. cheeses will be able to enter the Korean market duty free.

#### *The Trade Situation...*

Korea was the fourth largest export market for U.S. cheese in 2009. From 2007 through 2009, U.S. suppliers shipped an annual average of 10,700 metric tons of cheese valued at \$45 million. The U.S. share of Korea's import market is 20 percent. The KORUS agreement will help U.S. cheese producers compete against New Zealand, Australia, the EU, and Uruguay.

#### *The Current Market Access Situation...*

Korea maintains its applied tariff rate at the WTO-bound rate of 36 percent.

### **Whey and Whey Products**

#### *With the Agreement...*

U.S. feed whey exports will gain duty-free access to the Korean market immediately upon implementation of the agreement. This is a significant improvement over current duties ranging from 4 to 49.5 percent.

U.S. food whey exports will benefit from a new duty-free TRQ of 3,000 tons. From year two through year nine, the TRQ will grow at a compound 3-percent annual rate, with the out-of-quota tariff rate being reduced each year until year 10 of the agreement, when an unlimited quantity of U.S. food whey will be able to enter the Korean market duty free.

#### *The Trade Situation...*

From 2007 to 2009, Korea imported an average of 18,663 tons of whey a year valued at \$17 million from the United States. Whey for feed accounts for 76 percent of whey imports from the United States.

When considering whey imported for both food and feed uses, the U.S. share of Korea's market was 35 percent by volume and 49 percent by value in 2009. The KORUS agreement should help U.S. whey producers in the face of competition from the EU and Australia.

#### *The Current Market Access Situation...*

Korea has a global WTO TRQ that allows for the importation of 54,223 tons of whey at a maximum bound tariff rate of 20 percent. Within this global TRQ, whey may enter under a 35,000-ton TRQ with a tariff rate of 4 percent. Whey for food may enter under a 19,233-ton TRQ with a tariff rate of

20 percent. These TRQ volumes may be adjusted annually. The out-of-quota tariff rate is 49.5 percent.

## **Butter**

### *With the Agreement...*

An initial duty-free TRQ of 200 tons will apply for imports of butter from the United States. From year two through year nine, this TRQ will grow at a compound 3-percent annual rate. Beginning in year 10 of the agreement, an unlimited quantity of U.S. butter will be able to enter the Korean market duty free.

### *The Trade Situation...*

From 2007 to 2009, U.S. average annual exports of butter were 673 metric tons, valued at \$2 million on average. Australia, New Zealand, and the EU are the dominant players in the Korean market, with the United States only accounting for 3 percent of the total.

### *The Current Market Access Situation...*

Butter faces Korea's global WTO TRQ of 420 tons with an in-quota tariff rate of 40 percent. The out-of-quota rate is 89 percent. Butter spreads face a tariff of 8 percent.

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